

NOT FOR PUBLICATION

IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF CALIFORNIA

PENELOPE HOUSTON, et al.,

No. C 10-01881 JSW

Plaintiffs,

**ORDER GRANTING, IN PART,
AND DENYING, IN PART,
DEFENDANT'S MOTION TO
DISMISS PLAINTIFFS' CLAIMS
SIX, SEVEN, EIGHT, FIFTEEN,
AND SEVENTEEN.**

v.

DAVID FERGUSON, et al.,

Defendants.

Now before the Court is the motion to dismiss filed by defendant David Ferguson ("Ferguson"). Having considered the parties' papers, the relevant legal authority, and the record in this case, this Court GRANTS IN PART and DENIES IN PART Ferguson's motion to dismiss.

BACKGROUND

Plaintiffs Penelope Houston ("Houston"), Greg Ingraham ("Ingraham"), Daniel O'Brien ("O'Brien"), and James Wilsey ("Wilsey") (collectively "Plaintiffs") were members in the '70s punk rock band "The Avengers." Plaintiffs allege that Ferguson has violated their copyrights in several of their recorded performances.¹

A. The *Pink Album* License Agreements (Claim Six).

Plaintiffs allege that between 1983 and 1985 they each entered individual non-exclusive licensing agreements with Ferguson, through his companies Go! Records and CD Presents,

¹ Although the complaint alleges multiple copyright violations against multiple defendants, all other defendants have been dismissed. Thus, this motion only concerns the claims against Ferguson.

1 Ltd., (hereinafter “*Pink Album* Agreements”) regarding their interests in fourteen master
 2 recordings (hereinafter “*Pink Album* Masters”). (Compl. ¶¶ 22, 27-29, 32-34, 37.) Plaintiffs
 3 allege that, pursuant to the *Pink Album* Agreements, Ferguson had the right to publish a
 4 fourteen-track compilation album in the form of phonorecords only. (*Id.*)

5 From 1982 through the 1990s, Ferguson allegedly manufactured and sold over 100,000
 6 copies of the *Pink Album* Masters. (*Id.* ¶ 40.) However, Ferguson did not pay the Plaintiffs
 7 royalties due under the *Pink Album* Agreements. (*Id.*) Thus, on August 5, 1999, Plaintiffs sent
 8 Ferguson a letter rescinding the *Pink Album* Agreements. (*Id.* ¶¶ 47-48.) Plaintiffs further
 9 allege that Ferguson resumed selling and licensing the *Pink Album* Masters in 2008 or 2009.
 10 (*Id.* ¶ 49.)

11 According to Plaintiffs, in 2008, they again notified Ferguson that he did not have the
 12 right to exploit the *Pink Album* Masters. However, Plaintiffs allege that, in 2008 or 2009,
 13 Ferguson entered into agreements with third parties to allow reproduction and distribution of
 14 the *Pink Album* Masters. (*Id.* ¶¶ 62, 63(b).) Plaintiffs also allege that Ferguson’s agreements
 15 with these third parties to reproduce and distribute the *Pink Album* Masters infringed their
 16 copyrights in said works. (*Id.* ¶¶ 71-76.)

17 **B. The Houston and Ingraham Co-Publishing Agreements (Claim Seven).**

18 On or about March 21, 1984, and March 5, 1985, Ingraham and Houston, respectively,
 19 entered into separate co-publishing agreements (hereinafter “Ingraham/Houston Co-Publishing
 20 Agreements”) with Ferguson’s company CD Presents, Ltd. (*Id.* ¶¶ 35, 38.) In the
 21 Ingraham/Houston Co-Publishing Agreements, both Houston and Ingraham agreed that CD
 22 Presents, Ltd. would own an undivided 50% interest in Houston’s and Ingraham’s respective
 23 copyright interests in fourteen Avengers compositions.² (*Id.*)

24 Houston and Ingraham allege that they each terminated their co-publishing agreements
 25 by letter on or about August 5, 1999. (*Id.* ¶ 48.) Plaintiffs allege that notwithstanding
 26

27 ² The jointly owned compositions included: *We are The One*, *Car Crash*, *I*
 28 *Believe in Me*, *The American In Me*, *Corpus Christi*, *Uh Oh*, *White Nigger*, *Open Your Eyes*,
Desperation, *Thin White Line*, *No Martyr*, *F**k You*, *Cheap Tragedies* and *Second to None*.
 Houston and Ingraham originally each owned a 25% interest in the fourteen compositions.

Houston's and Ingraham's termination of these agreements, Ferguson continues to exploit The Avengers' compositions transferred by the Ingraham/Houston Co-Publishing Agreements. (*Id.* ¶¶ 65-89.)

C. The Live at Winterland Masters (Claim Eight).

In 1978, Plaintiffs performed as the opening act for the Sex Pistols at the Winterland auditorium (hereinafter "Winterland Performance"). (*Id.* ¶ 106.) Plaintiffs allege that Houston transferred her 25% interest in recordings made by Ferguson of the Winterland Performance to Ferguson (hereinafter "Winterland Agreement"). (*Id.* ¶ 109.) Ferguson allegedly has entered into digital distribution agreements with third parties regarding the Winterland Performance. (*Id.* ¶ 111.) Plaintiffs dispute Ferguson's right to income from those recordings and his right to distribute third-party recordings of the Winterland Performance under the Winterland Agreement. (*Id.* ¶ 112.)

D. Fraud and Conversion (Claims Fifteen and Seventeen).

Plaintiffs claim that sometime in 2008 or 2009, Ferguson made representations to third parties that Ferguson, on behalf of the Plaintiffs, had the right to exclusively administer music publishing rights and collect music publishing income. Plaintiffs allege Ferguson made these representations despite the fact that they terminated the Ingraham/Houston Co-Publishing Agreements in 1999. (*Id.* ¶¶ 149, 151.)

Plaintiffs also allege that Ferguson filed false registration certificates with the Copyright Office, which intentionally omit reference to Wilsey and O'Brien; filed false recordation documents with the Copyright Office, which purport to transfer Wilsey's and O'Brien's copyright interests to Ferguson; and filed other false documents, which purport to transfer copyright interests in other of Plaintiffs' recordings. (*Id.* ¶ 152, Exs. Q, R, S.) They further allege that Ferguson knew his representations were false, the representations were intended to deceive Plaintiffs, and Ferguson unjustly deprived them of income to which they are entitled. (*Id.* ¶¶ 153-54.)

Plaintiffs also allege that Ferguson collected profits from the exploitation of their copyrighted works, including approximately \$3,000 from Rhino Records. (*Id.* ¶¶ 63(f), 168.)

1 They also allege that they have a right to all the income derived from their recordings, they
 2 demanded Ferguson give them their money, but he refused and continues to hold their money.
 3 (*Id.* ¶¶ 167, 169.)

4 Based on these and other allegations, Plaintiffs assert claims for copyright infringement
 5 (claims one through five), declaratory relief (claims six through eight), fraud (claim fifteen),
 6 and conversion (claim seventeen) as well as several other claims not germane to this motion.
 7 Ferguson only moves to dismiss claims six, seven, eight, fifteen, and seventeen. (Def. Mot. to
 8 Dismiss at 2-3.)

9 ANALYSIS

10 A. Legal Standard on a Motion to Dismiss.

11 A motion to dismiss is proper under Federal Rule of Civil Procedure 12(b)(6) where the
 12 pleadings fail to state a claim upon which relief can be granted. The Court's "inquiry is limited
 13 to the allegations in the complaint, which are accepted as true and construed in the light most
 14 favorable to the plaintiff." *Lazy Y Ranch LTD v. Behrens*, 546 F.3d 580, 588 (9th Cir. 2008).
 15 Even under the liberal pleading standard of Federal Rule of Civil Procedure 8(a)(2), "a
 16 plaintiff's obligation to provide the 'grounds' of his 'entitle[ment] to relief' requires more than
 17 labels and conclusions, and a formulaic recitation of the elements of a cause of action will not
 18 do." *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007) (citing *Papasan v. Allain*, 478 U.S.
 19 265, 286 (1986)).

20 Pursuant to *Twombly*, a plaintiff must not merely allege conduct that is conceivable but
 21 must instead allege "enough facts to state a claim to relief that is plausible on its face." *Id.* at
 22 570. "A claim has facial plausibility when the plaintiff pleads factual content that allows the
 23 court to draw the reasonable inference that the defendant is liable for the misconduct alleged."
 24 *Ashcroft v. Iqbal*, 556 U.S. ___, 129 S. Ct. 1937, 1949 (2009) (citing *Twombly*, 550 U.S. at 556).
 25 If the allegations are insufficient to state a claim, a court should grant leave to amend, unless
 26 amendment would be futile. *See, e.g., Reddy v. Litton Indus., Inc.*, 912 F.2d 291, 296 (9th Cir.
 27 1990); *Cook, Perkiss & Liehe, Inc. v. N. Cal. Collection Serv., Inc.*, 911 F.2d 242, 246-47 (9th
 28 Cir. 1990).

B. Defendant's Motion is Granted in Part.

Ferguson moves to dismiss (1) claims six through eight as both preempted by the Copyright Act and duplicative of Plaintiffs' copyright claims; (2) claim fifteen for failure to state a cause of action for fraud; and (3) claim seventeen for failure to state a claim for conversion.

1. Defendant's Motion to Dismiss Plaintiffs' Requests For Declaratory Relief is Granted in Part and Denied in Part (Claims Six, Seven, and Eight).

In claims six, seven, and eight, Plaintiffs request a declaration from this Court regarding the parties' respective ownership of the recordings at issue. Ferguson argues that the claims are preempted by the Copyright Act and, even if not preempted, should be dismissed because they are duplicative of claims one through five, in which Plaintiffs specifically allege copyright infringement.

a. This Court declines jurisdiction over claims six and seven, but shall exercise jurisdiction over claim eight.

This Court first addresses Ferguson's argument that claims six through eight are duplicative of claims one through five. The Declaratory Judgment Act allows a district court "upon appropriate pleading, [to] declare the rights and other legal relations of any interested party seeking such declaration...." 28 U.S.C. § 2201. However, in doing so, a district court should avoid duplicative litigation. *See Principal Life Ins. Co. v. Petula Assocs.*, 394 F.3d 665, 669 (9th Cir. 2005). "A claim for declaratory relief is unnecessary where an adequate remedy exists under some other cause of action." *Permpoon v. Wells Fargo Bank Nat'l Ass'n*, No. 09-CV-01140-H, 2009 U.S. Dist. LEXIS 89723, at *14-15 (S.D. Cal. Sept. 29, 2009) (quoting *Manown v. Cal-Western Reconveyance Corp.*, 2009 U.S. Dist. LEXIS 68392, at *17-18 (S.D. Cal. Aug. 4, 2009)).

Claims six and seven are duplicative of claims one through five. Claims one through five allege that Ferguson infringed Plaintiffs' copyrights when he licensed and distributed: (1) *The American In Me*, (2) a remastered version of *The Pink Album*, (3) *I Believe In Me*, (4) the cover album *Tribute to the Avengers*, and (5) *We Are The One* respectively. (Compl. ¶¶ 65-95.)

1 In claims six and seven, Plaintiffs seek a declaration that they own all rights to the copyrights
 2 that are the subject matter of claims one through five. Plaintiffs dispute Ferguson's right, under
 3 the Ingraham/Houston Co-Publishing Agreements, to license or distribute the copyrighted
 4 works. Plaintiffs claim that disputes exist about the the scope of the agreements and whether
 5 the agreements are valid. However, a in order to resolve an infringement claim, a court must
 6 decide the scope and validity of an agreement that transfers or licenses the copyrights that a
 7 plaintiff claims a defendant infringed. *See Topolos v. Caldewey*, 698 F.2d 991, 994 (9th Cir.
 8 1983). Thus, Plaintiffs' claims six and seven are duplicative. Therefore, this Court GRANTS
 9 Ferguson's motion to dismiss claims six and seven.

10 In contrast, in claim eight, Plaintiffs request declaratory relief regarding an agreement
 11 between Houston and Ferguson that granted Ferguson the right to distribute certain recordings
 12 of the Winterland Performance. Plaintiffs do not allege that Ferguson infringed their copyrights
 13 in the Winterland Performance. Thus, this Court will not be required to decide copyright
 14 ownership in the Winterland Performance recordings without the relief requested. Therefore,
 15 this Court DENIES Ferguson's motion to dismiss claim eight as duplicative.

16 **b. Claim eight also is not preempted by the Copyright Act.**

17 Ferguson also argues that Plaintiffs' request for declaratory relief is preempted by the
 18 Copyright Act. However, this argument misconstrues the nature of preemption under the
 19 Copyright Act. The Copyright Act does not occupy the field of all claims that potentially
 20 involve or touch upon copyrights. *See Foad Consulting Group v. Azzalino*, 270 F.3d 821, 827
 21 (9th Cir. 2001). "Thus, where the Copyright Act does not address an issue, we turn to state law
 22 to resolve the matter, so long as state law does not otherwise conflict with the Copyright Act."
 23 *Id.* A district court will interpret state contract law when determining copyright ownership and
 24 transferred rights in copyright infringement cases. *Topolos*, 698 F.2d at 994.

25 In claim eight, Plaintiffs request this Court to declare the parties' rights, under the
 26 Winterland Agreement, to copyrighted works. (Compl. ¶¶ 96-114.) Plaintiffs allege that some
 27 of these works were transferred by agreement to Ferguson; however, the parties dispute which
 28 works were transferred. The Copyright Act does not prevent a district court from declaring

1 whether a contract was formed or revoked, or declaring its contents. *See Topolos*, 698 F.2d at
2 994. Thus, because claim eight requests a declaration of Plaintiffs' rights under an agreement
3 governed by contract law, the claim is not preempted by the Copyright Act. Therefore, this
4 Court DENIES, IN PART, Ferguson's motion to dismiss on this basis.

5 **2. Plaintiffs Fail to State a Claim for Fraud (Claim Fifteen).**

6 Plaintiffs allege that they were defrauded by Ferguson when he intentionally and
7 knowingly misrepresented to third parties that he owned the copyrights to Plaintiffs' music and
8 profited from distributing that music. The elements for a cause of action for fraud are: (1) a
9 misrepresentation to the plaintiff by the defendant, (2) knowledge of the falsity by the
10 defendant, (3) intent to induce reliance by the plaintiff on the misrepresentation, (4) justifiable
11 reliance by the plaintiff, and (5) damages. *Lovejoy v. AT&T Corp.*, 92 Cal. App. 4th 85, 93
12 (2001) (citing *Lazar v. Superior Court*, 909 P.2d 981 (Cal. 1996)). Ferguson argues that
13 Plaintiffs do not adequately allege facts to support a claim for fraud because they do not allege
14 he made misrepresentations to them. Therefore, Ferguson argues, they did not rely on the
15 alleged misrepresentations to their detriment.

16 Actual reliance is an essential part of any fraud claim. A plaintiff actually relies on a
17 defendant's misrepresentation where the plaintiff would not have acted but for the
18 misrepresentation. *Id.* at 94. In *Lovejoy*, AT&T allegedly misrepresented to Lovejoy's 800-
19 number carrier that Lovejoy wanted his number transferred to AT&T's service. Lovejoy did
20 not allege that he received this communication. The court found that Lovejoy did not state
21 claim for fraud based on a direct communication theory, because AT&T did not communicate
22 with either the plaintiff or the plaintiff's agent regarding the 800-number. Thus, Lovejoy could
23 not have relied on the statement when acting. Here, as in *Lovejoy*, the Plaintiffs do not allege
24 facts indicating that they relied on Ferguson's alleged misrepresentations. In fact, other than the
25 bald assertion that Plaintiffs relied on Ferguson's misrepresentations, the complaint contains no
26 facts indicating that Ferguson misrepresented anything to the Plaintiffs, or their agents. As
27 such, Plaintiffs fail to state a claim for fraud. *See Twombly*, 550 U.S. at 555.
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1 Plaintiffs argue that even if Ferguson did not directly misrepresent facts, he actively
2 concealed facts in order to mislead them. (Pl. Opp. at 8-9.)

3 The elements of an action for fraud and deceit based on concealment are: (1)
4 the defendant must have concealed or suppressed a material fact, (2) the
5 defendant must have been under a duty to disclose the fact to the plaintiff, (3)
6 the defendant must have intentionally concealed or suppressed the fact with
7 the intent to defraud the plaintiff, (4) the plaintiff must have been unaware
8 of the fact and would not have acted as he did if he had known of the
9 concealed or suppressed fact, and (5) as a result of the concealment or
10 suppression of the fact, the plaintiff must have sustained damage.

11 *Lovejoy*, 92 Cal. App. 4th at 96.

12 Fraud under an active concealment theory requires just that — active concealment, or
13 “willful suppression of material fact.” *Id.* For example, in *Lovejoy*, the court applied an active
14 concealment theory where the defendant had a duty to disclose the fact that it transferred
15 Lovejoy’s 800-number but instead hid the transfer and related charges deep in Lovejoy’s long
16 distance bill. Thus, AT&T committed fraud by concealing from Lovejoy the fact that the
17 switch occurred, not by making misrepresentations to Lovejoy’s former 800-number carrier. *Id.*
18 In this case, Plaintiffs have neither alleged facts demonstrating that Ferguson had a duty to
19 disclose nor any facts demonstrating that Ferguson affirmatively concealed the copyright
20 transactions. On the contrary, Plaintiffs only allege that Ferguson misrepresented his ownership
21 interest in their copyrights to third parties.

22 Thus, Plaintiffs do not allege facts stating a claim for direct fraud or for active
23 concealment. They have not alleged that they relied on Ferguson’s misrepresentations, and they
24 have not alleged facts showing that Ferguson concealed anything from them or had a duty to
25 disclose anything to them. Therefore, the Court GRANTS Ferguson’s motion to dismiss Claim
26 15. However, because the Court cannot say it would be futile to grant leave to amend, the Court
27 GRANTS Plaintiffs leave to amend this claim.

28 **3. Plaintiffs Fail to State a Claim for Conversion (Claim Seventeen).**

Plaintiffs allege that Ferguson has converted the profits he received from unlawfully
exploiting their copyrights by not turning the profits over to Plaintiffs. “The elements of a
conversion claim are: (1) the plaintiff’s ownership or right to possession of the property; (2) the

1 defendant's conversion by a wrongful act or disposition of property rights; and (3) damages.”
2 *Burlesci v. Petersen*, 68 Cal. App. 4th 1062, 1066 (1998). When a plaintiff alleges the
3 defendant converted money, the plaintiff must specifically identify the sum of money converted,
4 and allege that he had a right to possess it when the defendant converted it. *See Haigler v.*
5 *Donnelly*, 117 P.2d 331, 335 (Cal. 1941); *Baxter v. King*, 253 P. 172, 172 (Cal. 1927). General
6 claims for damages do not sufficiently allege conversion of a specifically identifiable sum of
7 money. *See Farmers Insur. Exchange v. Zerin*, 53 Cal. App. 4th 445, 452 (1997) (hereinafter
8 “*Farmers Insurance*”); *see also Baxter*, 253 P. at 172.

9 Plaintiffs allege that Ferguson wrongfully received money when he infringed their
10 copyrights, that that money was rightfully theirs, and that he converted it by not turning it over
11 to Plaintiffs when they demanded it in 2009. Ferguson argues that Plaintiffs have not
12 sufficiently identified a sum of money and, therefore, have not adequately alleged facts to state
13 a claim for conversion. (Def. Mot. to Dismiss at 9; Def. Reply at 7.) The Court agrees that
14 Plaintiffs have not alleged a cause of action for conversion, because they fail to allege that
15 Ferguson converted an identifiable sum of money.

16 Rather, Plaintiffs allege that Ferguson converted the profits he received from unlawfully
17 exploiting their copyrights. This is a general claim for damages for copyright infringement.
18 *See* 17 U.S.C. § 504(a). Although Plaintiffs allege that Ferguson converted individual payments
19 that third parties made to Ferguson, and although Plaintiffs estimate the amount of one such
20 payment, these allegations do no more than couch Plaintiffs' estimated damages for copyright
21 infringement in the guise of a specific sum. If identifying an estimated amount of alleged
22 damages was sufficient, then every disputed claim involving money, including a breach of
23 contract, could be recast as a claim for conversion. That is not the law. *See, e.g., Farmers*
24 *Insurance*, 53 Cal. App. 4th at 452. To be sufficiently identifiable, a sum must be more than
25 just damages from a disputed cause of action. *See id.*; *Baxter*, 253 P. at 172. Thus, Plaintiffs
26 have not sufficiently identified a sum of money capable of being converted. Therefore, the
27 Court GRANTS Ferguson's motion to dismiss Claim 17. However, because the Court cannot
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1 say it would be futile to grant leave to amend, this Court also GRANTS Plaintiffs leave to
2 amend this claim.³

3 **CONCLUSION.**

4 The Court GRANTS, IN PART, and DENIES, IN PART, the defendant's motion to
5 dismiss for the foregoing reasons, and GRANTS Plaintiffs leave to file an amended complaint.
6 Plaintiffs shall file an amended complaint no later than November 19, 2010.

7 **IT IS SO ORDERED.**

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9 Dated: October 29, 2010

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11 JEFFREY S. WHITE
12 UNITED STATES DISTRICT JUDGE
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27 ³ Plaintiffs should note that a claim for conversion may be preempted by the
28 Copyright Act. *See Zito v. Steeplechase Films, Inc.*, 267 F. Supp. 2d 1022, 1027 (N.D. Cal. 2003). Thus, Plaintiffs should be mindful of their obligations under Federal Rule of Civil Procedure 11.